

Keywords, Trademarks, and the Gray Market: Why the Use is Not Fair

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Keywords, Trademarks, and the Gray Market: Why the Use is Not Fair

I. INTRODUCTION

In January 1999, the cosmetics company Estee Lauder, Inc. filed suit against The Fragrance Counter, Inc., an Internet fragrance retailer¹ unauthorized to sell Estee Lauder products,² and Excite, Inc., an Internet search engine, alleging that the use and sale of Estee Lauder trademarks by the two defendants constituted, among other things, unfair competition and trademark infringement.³ The case was never decided, as it was settled out of court.⁴ This Comment will argue that, had the case not settled, the court should have ruled in favor of Estee Lauder. In doing so, this Comment will assess the basic goals and purposes of trademark law, the nature of the gray market⁵ and the enabling effect of the Internet, the effect of the decisions in *Playboy Enterprises, v. Netscape Communications, Corp.*⁶ and *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*⁷ on the ability

1. For the purpose of this Comment, The Fragrance Counter will be spoken of and referred to as if it is operating as an Internet fragrance retailer in the same form as it (or www.ibeautey.com) was during the events leading up to and throughout the duration of the suit. The website <http://www.ibeautey.com> was sued, in this case, under the name of The Fragrance Counter. Michael Brick, *Web Becoming a Sticky Point for Lauder*, THESTREET.COM, Oct. 25, 1999, at <http://www.thestreet.com/stocks/consumer/800896/html> (last visited Jan. 7, 2002).

2. Jim Kerstetter, *Estee Lauder at the Center of Online Trademark Dispute*, ZDNET NEWS, at <http://www.zdnet.com/zdnn/stories/news/0%2C4586%2C388867%2C00.html> (last visited Jan. 7, 2002).

3. *Estee Lauder, Inc. v. Fragrance Counter, Inc.*, 189 F.R.D. 269, 270, 52 U.S.P.Q.2d (BNA) 1786, 1787 (S.D.N.Y. 1999).

4. Perry J. Viscounty et al., *Cyber Gray Market is Manufacturers' Headache*, NAT'L L.J., Aug. 20, 2001, at C4.

5. Although the gray market will be discussed in more detail below, for a helpful overview, see Alvin G. Galstian, Comment, *Protecting Against the Gray Market in the New Economy*, 22 LOY. L.A. INT'L & COMP. L. REV. 507, 508 (2000) (noting that "[g]ray marketeers typically purchase genuine products abroad at a discount and re-import them back into the United States for gray market consumption. Gray marketeers then profitably sell the gray market products for less than consumers would pay had they purchased the products through authorized distribution channels." (footnotes omitted)). The gray market has also been described as "an unauthorized distribution network for a lawful product." Shubha Ghosh, *Gray Markets in Cyberspace*, 7 J. INTELL. PROP. L. 1, 6 (1999).

6. 55 F. Supp. 2d 1070, 52 U.S.P.Q.2d (BNA) 1162 (C.D. Cal. 1999).

7. 174 F.3d 1036, 50 U.S.P.Q.2d (BNA) 1545 (9th Cir. 1999).

of the trademark owner to limit the use and sale of its trademarks as keywords and metatags by search engines and other entities,⁸ and the applicability of the fair use doctrine. Although a ruling in Estee Lauder's favor would not prohibit the sale of gray market goods, it could help to slow the attempts of gray marketers using the Internet to take advantage of today's technology in furthering their efforts to capitalize on the first sale doctrine⁹ and the good will of the trademark owner through the use of its trademarks.

A. Estee Lauder Companies

Estee Lauder entered the cosmetics industry in the 1920's by selling skin cream in beauty parlors.¹⁰ She founded Estee Lauder Cosmetics with her husband in 1946, and by the mid-1990's, Estee retired with one of the largest and most prestigious cosmetics companies in the world.¹¹ To successfully build such a company, Lauder made a number of decisions. One of those decisions concerned the distribution of her products.¹² Estee and her husband made a conscious decision to distribute their cosmetics only in places that satisfied the "upscale image" they were determined to attach to their products.¹³ Consequently, they considered "drugstores, supermarkets, and five-and-tens as being at odds with the upscale image that she had already created and to which she was strongly committed."¹⁴ Estee and her

8. These two cases are two of the most significant and applicable cases to date upon which one could base a proposed outcome of Estee Lauder's case against The Fragrance Counter and Excite. While neither case presents the identical scenario provided by the Estee Lauder case, this Comment will argue that taken together, these two cases would tend to show that a ruling in Estee Lauder's favor would have been in order.

9. Under the first sale doctrine, "[a]s a general rule, trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner. . . . Thus, a distributor who resells trademarked goods without change is not liable for trademark infringement." J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:41 (4th ed. 2001) (quoting *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 24 U.S.P.Q.2d (BNA) 1189 (2d Cir. 1992)). The first sale doctrine is often referred to as "exhaustion," as "[t]rademark rights are 'exhausted' as to a given item upon the first authorized sale of that item." *Id.* (citing *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 2 U.S.P.Q.2d 1343 (2d Cir. 1987)).

10. Nancy F. Koehn, *Building a Powerful Prestige Brand: Estee Lauder and the Department Store Cosmetics Counter*, at http://workingknowledge.hbs.edu/pubcontent/c/_pubcontent_c_I1759I1773P1774.html (Oct. 30, 2000).

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.*

husband seemingly made the right decisions concerning the new business, as today Estee Lauder Companies, Inc. (the Company) additionally embodies a number of well-known trademarks such as "Aramis," "Clinique," "Prescriptives," "Origins," "M·A·C," "La Mer," "Bobbi Brown," "Aveda," and "Bumble and bumble."¹⁵ The products of the Company are sold in 130 countries and territories, since entering the international market in 1960 in London, and in Hong Kong in 1961.¹⁶ The Company now has over twenty thousand employees and operates within the product markets of skin care, make-up, fragrance, and hair care.¹⁷ The Estee Lauder trademarks mean something to the consuming public; they signify the high quality and taste that Estee had envisioned in 1946.¹⁸

The size and growth of Estee Lauder's cosmetics companies are apparent. For manufacturers of this size and nature, the issue of distribution most likely constitutes a practical and important concern. According to Estee Lauder's website, the Company "sells its products principally through limited distribution channels to complement the images associated with its brands."¹⁹ Additionally, the Company secured the website Gloss.com in 2000, and, together with Chanel and Clarins, "relaunched" the site in 2001 as a site devoted to the sale of their respective products.²⁰ However, the Company, like most, cannot control the ultimate distribution of every one of its products. This lack of control is due in part to the activities of the gray market, also known as "parallel importing."²¹ While the nature of the gray market will be discussed below, it is important to note now that many gray marketers utilize the Internet and had entered into the e-commerce world long before Estee Lauder. This sort of activity served as part of the foundation and background of the case Estee Lauder instituted against The Fragrance Counter and Excite.

15. Estee Lauder Companies, *The Company*, at <http://www.elcompanies.com/htm/content/ml1.htm> (as existed and last visited Jan. 7, 2002).

16. *Id.*

17. *Id.*

18. *See id.*

19. *Id.*

20. *Id.* The Company also maintains a website that sells only Estee Lauder products. See <http://www.estelauder.com> (last visited Oct. 11, 2002).

21. Hugh C. Hansen, *Protection of Intellectual Property Rights at the Border: Continuing Battle Over "Parallel Imports,"* 536 PLI/PAT 39, 41-42 (1998).

B. The Suit

On January 19, 1999, Estee Lauder, Inc. (Estee Lauder), along with Origins Natural Resources, Inc., Clinique Laboratories, Inc., and Prescriptives, Inc., filed a complaint in the United States District Court for the Southern District of New York, claiming “unfair competition, trademark infringement, false advertising, and trademark dilution... arising from the allegedly unlawful Internet marketing practices of defendants The Fragrance Counter... and Excite.”²² The Fragrance Counter is an Internet fragrance retailer that “sells Estee Lauder products but is not an ‘authorized retailer’ of the products, according to the papers filed in the U.S. District Court.”²³ Excite, on the other hand, is a search engine that aids individuals in their navigation of the Internet.²⁴ *The Internet Law Journal* has provided a useful and simplified description of the inner workings of a search engine and the Internet:

Most web pages on the World Wide Web contain hidden key words and phrases, called “metatags”, [sic] that are used by search engines to find Internet content. When a web surfer or consumer conducts a search using one of the many search engines... the search engine looks for matches between the search term entered and the metatags of millions of web pages. When the search term matches a given web page’s metatag, the web page shows up as a “hit” among the list of search results. The web surfer can jump directly to one of the listed sites simply

22. *Estee Lauder, Inc. v. The Fragrance Counter, Inc.*, 189 F.R.D. 269, 270, 52 U.S.P.Q.2d (BNA) 1786, 1787 (S.D.N.Y. 1999).

23. Kerstetter, *supra* note 2.

24. See Matthew A. Kaminer, *The Limitations of Trademark Law in Addressing Trademark Keyword Banners*, 16 SANTA CLARA COMPUTER & HIGH TECH. L.J. 35, 38-39 (1999).

A search engine provides a convenient way to search the Internet. Search engines work by creating an index to as many web pages on the Internet as possible... These search engines use three required components: search terms, a database, and the results page. The search terms, also known as keywords, are user queries consisting of words that reflect the user’s interest. For example, a user might use a search engine to search for football-related web sites by typing the word “football” as a search term into a designated space. The search engine software then compares the search terms to a database located in the search engine, which contains information about all web pages known to the search engine. The result page typically includes the list of cites generated by the search term to the search engine’s database and any additional advertising information.

Id. (footnotes omitted). See also Netlingo, “search engine,” at <http://www.netlingo.com/right.cfm?term=search%20engine> (last visited March 12, 2002).

by clicking on it.²⁵

Through the use of metatags, companies are able to draw attention to their websites via searches performed through search engines using specific keywords.²⁶ Another way keywords are used on the Internet by search engines is to trigger banner ads,²⁷ which was one of the main concerns for Estee Lauder.²⁸

Several events led to the filing of the lawsuit. Purportedly, Excite would not sell²⁹ to Estee Lauder the keyword "Clinique,"³⁰ because it had "entered into an exclusive agreement with The Fragrance Counter for the on-line sale of cosmetics."³¹ Thus, employing an Internet search with the keyword "Clinique" resulted in an ad for The Fragrance Counter.³² Further, an "Estee Lauder" keyword search resulted in a banner ad advertising Estee Lauder products for sale on the website of The Fragrance Counter.³³ Estee Lauder also reportedly claimed that its trademarks were more pronounced on the banner ad than The Fragrance Counter trademarks.³⁴ The Fragrance Counter is not an authorized Internet dealer of Estee Lauder products,³⁵ and further, Estee Lauder claimed not to sell any of its products to The Fragrance Counter.³⁶

25. Vivian L. Polak et al., *The Legal Risks of Trademarks as Internet Search Terms*, INTERNET L.J. (Aug. 1, 2000), at <http://www.Internetlawjournal.com/content/iparticle06080002.htm> (last visited Jan. 7, 2002). See also Netlingo, "meta tag," at <http://www.netlingo.com/right.cfm?term=meta%20tag> (last visited Mar. 12, 2002).

26. See Polak et al., *supra* note 25.

27. Christine D. Galbraith, *Electronic Billboards Along the Information Superhighway: Liability Under the Lanham Act for Using Trademarks to Key Internet Banner Ads*, 41 B.C. L. REV. 847, 848-49 (2000); Rachel Jane Posner, *Manipulative Metatagging, Search Engine Baiting, and Initial Interest Confusion*, 33 COLUM. J.L. & SOC. PROBS. 439, 487-88 (2000).

28. See Stephen W. Feingold, *Trademark and Ecommerce, Advanced Seminar on Trademark Law 2000*, 603 PLI/PAT 243, 256-57 (2000).

29. Search engines "sell" keywords that trigger a banner ad for the purchasing entity or advertiser. Galbraith, *supra* note 27, at 849 (noting that "[o]ne of the ways in which these sites generate income is by selling 'keywords' to advertisers. When a particular word is entered as a search term, an ad for the company purchasing the keyword is displayed as a banner above the search results.")

30. Clinique® is a brand name that is owned by and is a part of Estee Lauder Companies, Inc. Estee Lauder Companies, *supra* note 15.

31. Feingold, *supra* note 28, at 256.

32. *Id.*

33. *Id.* at 257.

34. *Id.* at 257.

35. Brick, *supra* note 1.

36. Mark Frauenfelder, *Psst... Want to Buy a Keyword?*, THE INDUSTRY STANDARD, Mar. 29, 1999, at <http://www.thestandard.com/article/0,1902,3871,00.html>. See also Tim

Thus, there are a couple of important aspects of this case to reiterate. First, The Fragrance Counter was apparently involved in the sale of gray market Estee Lauder products.³⁷ Second, The Fragrance Counter was apparently using Estee Lauder trademarks as keywords to trigger banner ads for The Fragrance Counter and to describe or advertise the products it was selling on the website.³⁸ One of the issues before the court, therefore, concerned whether the extent to which The Fragrance Counter and Excite used the trademarks constituted an infringement. When examining this case, it is also important to consider the inescapable fact that The Fragrance Counter was acting as an unauthorized distributor of Estee Lauder products.³⁹

Although the case posed interesting issues, it was settled before the court took any action.⁴⁰ The Fragrance Counter and Excite reportedly assured Estee Lauder that they would no longer use Estee Lauder's trademarks for advertisement or sell the trademarks as keywords.⁴¹ There were also rumors that, before the settlement, the court was leaning toward granting an injunction.⁴² If granted, the injunction would most likely have prohibited The Fragrance Counter and Excite from using Estee Lauder's trademarks in the allegedly infringing manner in which they were being used.⁴³ Even though a ruling in Estee Lauder's favor would not prohibit the sale of gray market goods, this case would have addressed the status of the use of trademarks as keywords that trigger banner ads by and for entities other than the trademark owner. In so doing, the court may have extended, and perhaps should have extended as this Comment will argue, trademark protection to scenarios such as these. This potential protection would be another way in which trademark owners and manufacturers could combat the unauthorized distribution of gray market goods that could potentially damage their good will.

II. THE BASICS OF TRADEMARK LAW

Several policies ground trademark law, including "[t]he policies of

Richardson, *Excite Keyword Selling Practice Challenged in Court*, THE REGISTER, Feb. 1, 1999, at <http://www.theregister.co.uk/content/archive/2526.html> (last updated Oct. 1, 2002).

37. See Kerstetter, *supra* note 2. See also Viscounty et al., *supra* note 4.

38. See Feingold, *supra* note 28, at 256-57.

39. Brick, *supra* note 1.

40. Viscounty et al., *supra* note 4.

41. *Id.*

42. *Id.*

43. See *id.*

consumer protection, property rights, economic efficiency and universal concepts of justice.”⁴⁴ Similarly, the most often cited reasons for enforcing trademark rights are the protection of consumers and the protection of the manufacturer’s good will.⁴⁵ In fact, trademark law has been called “[t]he traditional guardian of good will.”⁴⁶ According to ethical norms and trademark law, it is unfair for one to take advantage of the good will and reputation built up by a trademark owner through the infringing use of those very trademarks.⁴⁷ That is precisely what was happening when Estee Lauder filed suit. The Lanham Act provides:

Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive, shall be liable in a civil action by the registrant. . . .⁴⁸

Thus, in order to have a valid infringement claim, Estee Lauder would have had to show that in purchasing and using the trademark terms as keywords and as a prominent part of the triggered banner ads, The Fragrance Counter used Estee Lauder’s registered mark(s) in

44. MCCARTHY, *supra* note 9, § 2:2 (citing *Nat’l Color Labs., Inc. v. Philip’s Foto Co.*, 273 F. Supp. 1002, 157 U.S.P.Q. (BNA) 136 (S.D.N.Y. 1967)).

45. *Id.* § 2:33.

The purpose underlying any trademark statute is twofold. One is to protect the public so that it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trademark owner.

Id. (quoting S. Rep. No. 79-1333 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274).

46. Michael L. Brody & Darren C. Baker, *Trademarks May Thwart Gray Market Importers*, NAT’L L.J., May 18, 1998, at C6.

47. MCCARTHY, *supra* note 9, § 2:9.

48. The Lanham Act § 32, 15 U.S.C. § 1114(1) (2000).

connection with the sale or advertising of goods, and in connection with which such use is likely to cause confusion,⁴⁹ mistake, or to deceive.⁵⁰ This Comment argues that The Fragrance Counter's use of Estee Lauder's trademarks was infringing, and had the court had the opportunity, it should have ruled in Estee Lauder's favor. Additionally, while trademark owners often cannot control the distribution of their products and thus the use of their trademarks on those products after the first sale,⁵¹ as will be discussed below, this infringing use becomes even more egregious when considered in light of the activity of the gray market.

III. THE GRAY MARKET (A.K.A. "PARALLEL IMPORTS")

The gray market is a business or system through which unauthorized distributors offer trademarked goods to consumers in the United States that were obtained abroad and that are often not intended for resale in the United States, and thus compete with the original manufacturers or authorized distributors of those goods.⁵² The gray market has been concisely described as "a multibillion-dollar industry based on the importation of copyrighted or trademarked materials without the consent of the owner of those intellectual property rights [that] creates a second, unauthorized distribution system that competes with the domestic system authorized by the manufacturer."⁵³ The gray market is thought to set manufacturers back ten billion dollars every year.⁵⁴ The

49. Likelihood of confusion is generally determined by an evaluation of a number of basic factors. There are several tests, known by different names to the courts of different circuits, that evaluate the same basic factors. For an overview of the different tests, see MCCARTHY, *supra* note 9, § 24:30-43. In the Second Circuit, these factors are referred to as the *Polaroid* factors, as set forth in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 128 U.S.P.Q. 411 (2d Cir. 1961). They are known as the *Sleekcraft* factors in the Ninth Circuit, and are listed as follows: 1) "strength of the mark"; 2) "proximity of the goods"; 3) "similarity of the marks"; 4) "evidence of actual confusion"; 5) "marketing channels used"; 6) "type of goods and the degree of care likely to be exercised by the purchaser"; 7) "defendant's intent in selecting the mark"; and 8) "likelihood of expansion of the product lines." *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49, 204 U.S.P.Q. (BNA) 808, 814 (9th Cir. 1979) (noting that there are also other factors that may be considered in addition to the listed factors). However, as will be discussed below, the Ninth Circuit has since adopted an additional nominative use test that parallels the well-known fair use defense. *See Playboy Enters. v. Welles*, 279 F.3d 796, 801, 61 U.S.P.Q.2d (BNA) 1508, 1510 (9th Cir. 2002).

50. *See Welles*, 279 F.3d at 801, 61 U.S.P.Q.2d (BNA) at 1508.

51. *See* MCCARTHY, *supra* note 9, § 25:41.

52. *See id.* § 29:50.

53. David A. Gerber & David Bender, *Gray Market Becomes Less of an IP Gray Area*, NAT'L L.J., Oct. 19, 1998, at C19.

54. Viscounty et al., *supra* note 4 (citing James Michael, *A Supplemental Distribution*

problem for manufacturers is clear. However, what can be done to resolve the problem is not. This is not to say that the only concern regarding the gray market is for the manufacturers. Although it appears that consumers are in the unique position of potentially profiting from this activity, that profit is arguably outweighed by a number of factors that include the potential of being deceived and misled as to the source and affiliation of the products they are purchasing from gray marketers, and also the potential of purchasing products that may not have the guarantee and backing of the original manufacturer.⁵⁵ For example, while “[g]ray market goods are not counterfeits[,] . . . differences may exist . . . [and] may involve warranty coverage or compliance with US regulatory requirements.”⁵⁶ These are valid concerns for consumers of gray market goods. While these concerns arguably affect consumers of certain types of goods more than others, that discrepancy does not diminish the importance of these concerns.⁵⁷

While delving into the intricacies of the gray market and the precise roles of United States Customs and the Tariff Act⁵⁸ is beyond the scope of this Comment, exploration is required to the extent necessary to discover what gives gray marketers the ability to sell these parallel imports.⁵⁹ Assuming that these products successfully make it through United States Customs and are imported into the United States,⁶⁰ the question then becomes whether they can be sold bearing the trademarks without constituting an act of infringement or a violation of the Lanham

Channel?: The Case of U.S. Parallel Export Channels, 6 MULTINATIONAL BUS. REV. 24 (1998)). There are also more conservative estimates that suggest a range of between \$6 and \$10 billion. See, e.g., JEROME GILSON ET AL., TRADEMARK PROTECTION AND PRACTICE § 4.05(1) (2002). An estimate in 2000 suggested that “the U.S. market for gray goods is now somewhere between \$10 and \$20 billion a year.” Olga Kharif, *The Global Economy's Gray-Market Boom*, BUSINESSWEEK ONLINE, Nov. 30, 2000, at http://www.businessweek.com/bwdaily/dnflash/nov2000/nf20001130_555.htm. However, “[s]ome economists argue that legal gray-market trading does nothing worse than promote price competition.” *Id.*

55. See Galstian, *supra* note 5, at 510-12.

56. THE BETTER BUSINESS BUREAU, *Gray Market Goods*, at <http://www.newyork.bbb.org/library/publications/subrep45.html> (last visited Oct. 1, 2002).

57. For example, these concerns may arguably affect consumers of gray market electronics more than consumers of gray market cosmetics. The concerns, however, are essential to the evaluation of the gray market and its effects on the whole.

58. For a general overview, see GILSON ET AL., *supra* note 54, § 4.05(2)-(7).

59. See *id.* § 4.05(2) (noting that the applicable statutes most often utilized in situations concerning the importation of gray market goods are 15 U.S.C. §§ 1124, 1114 and 1125(a) and the Tariff Act of 1930, § 526).

60. See *id.* § 4.05(5)-(6) for an explanation of the applicable U.S. Customs regulations and *K-Mart Corp. v. Cartier Inc.*, 486 U.S. 281, 6 U.S.P.Q.2d (BNA) 1897 (1988).

Act. The "first sale" doctrine holds that they can.⁶¹ According to the court in the often cited *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*,⁶² "courts have consistently held that . . . the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product. Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition."⁶³ As such, this first sale defense to infringement only applies to the resale of genuine products that are not materially⁶⁴ different from the products authorized for importation or sale in the United States.⁶⁵ Thus, assuming that the gray marketer is selling products identical to those authorized for sale in the United States, and assuming that the products were not barred from importation by the Tariff Act or other regulations of United States Customs, the gray marketer is at liberty to sell the products regardless of how they were acquired, such as through parallel importing.⁶⁶ Thus, the further or additional use of the manufacturers' trademarks becomes the issue at this point. Similarly, it is at this point where the Internet plays a facilitating and enabling role in the activities of the gray market.

IV. THE EFFECT OF THE INTERNET ON THE GRAY MARKET

The Internet facilitates parallel importing in a number of ways. First, as the Internet is a source of instant information and instant communication, gray marketers can reach consumers more readily through the Internet and offer the goods for sale on their websites.⁶⁷ The costs of running, operating, and maintaining an actual store from which to sell these goods can be virtually eliminated and replaced by a

61. MCCARTHY, *supra* note 9, § 25:41.

62. 53 F.3d 1073, 34 U.S.P.Q.2d (BNA) 1720 (9th Cir. 1995).

63. *Id.* at 1074, 34 U.S.P.Q.2d (BNA) at 1721.

64. For an explanation of the "materiality standard," see GILSON ET AL., *supra* note 54, § 4.05(8) (noting "the case law suggests that a determination of 'materiality' depends on whether the imported goods are those which the American consumer expects to receive upon purchase in terms of physical characteristics, features, or quality[.]" and citing and discussing *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993); *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 1 U.S.P.Q.2d (BNA) 1016 (2d Cir. 1986); *Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp.*, 707 F.2d 1054, 219 U.S.P.Q. (BNA) 594 (9th Cir. 1983); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 2 U.S.P.Q.2d (BNA) 1343 (2d Cir. 1987); *Societe Des Produits Nestle S.A. v. Casa Helvetia Inc.*, 982 F.2d 633, 25 U.S.P.Q.2d (BNA) 1256 (1st Cir. 1992); *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 47 U.S.P.Q.2d (BNA) 1604 (3d Cir. 1998)).

65. MCCARTHY, *supra* note 9, §§ 25:41, 29:50.

66. *See id.*

67. Viscounty et al., *supra* note 4; *see also* Galstian, *supra* note 5, at 509, 512-13.

lower maintenance website operation.⁶⁸ Second, the gray marketer using the Internet as a medium for its business has lower advertising costs.⁶⁹ Through the use of a number of Internet tools, such as keywords and banner ads, the gray marketer is able to generate interest in and traffic to the website from which it is selling the goods fairly easily and inexpensively.⁷⁰

Another relevant impact of the Internet in conjunction with this practice of parallel importing is the increased potential for damage to the manufacturer's good will.⁷¹ As noted by Viscounty, gray marketers may often be guilty of sloppy business practices, exercising a lower degree of quality control, and capitalizing on the advertising efforts and trademark reputations of the manufacturers.⁷² The Internet enables this practice by allowing gray marketers to maintain websites, as a way to sell the products to the public, that feature the products for sale and their trademarks while doing little advertising of their own.⁷³ Further, gray marketers have been able to buy keywords to trigger banner ads that draw attention and traffic to their sites.⁷⁴ While the use of keywords is not a problem in its own right, this Comment argues that the use and sale of trademarks as keywords that trigger banner ads by and to entities other than the trademark owner, such as the gray marketer, further enable the gray marketer to profit off of the good will and reputation of the trademark owner, and should be deemed an infringement. By purchasing and using trademarked terms as keywords and as a prominent part of the triggered banner ads, The Fragrance Counter used Estee Lauder's registered mark(s) in connection with the sale or advertisement of goods, and such use is likely to cause confusion, mistake, or deception.⁷⁵

68. Viscounty et al., *supra* note 4.

69. *Id.*

70. *See id.*; Kaminer, *supra* note 24, at 39; Polak et al., *supra* note 25.

71. Viscounty et al., *supra* note 4.

72. *Id.* *See also* Galstian, *supra* note 5, at 510-12.

73. Viscounty et al., *supra* note 4. Although Internet retailers "can use a brand name on web site ads selling that branded product without a license from the trademark owner. . . a distributor cannot display a manufacturer's trademark on the distributor's Internet web site in such a way as to confuse consumers into thinking that this is the web site of an authorized dealer of that brand." MCCARTHY, *supra* note 9, § 25:41 (citing Patmont Motor Werks, Inc. v. Gateway Marine, Inc., 1997 WL 811770 (N.D. Cal. 1997) and Bernina of Am., Inc. v. Fashion Fabrics Int'l, Inc., 57 U.S.P.Q.2d 1881 (N.D. Ill. 2001)). This issue is discussed further in sec. VI. B. of this Comment.

74. *See* Galbraith, *supra* note 27, at 848-49; Polak et al., *supra* note 25.

75. *See* 15 U.S.C. § 1114(1) (2000).

A common defense to claims of trademark infringement is fair use. In the *Netscape*⁷⁶ decision, discussed in more detail below, the court articulated a fair use test that is valuable to the analysis of this topic.⁷⁷ The court listed the three following factors necessary for the use of a trademark by an entity other than the trademark owner to be deemed a fair use: 1) "the product must be one not readily identifiable without the use of the trademark"; 2) "only so much of the mark may be used as is reasonably necessary"; and 3) "the user must do nothing in conjunction with the mark to suggest sponsorship or endorsement."⁷⁸ While it seems that the adherence of the trademarks to the actual products⁷⁹ sold and the use of the trademarks on the websites⁸⁰ maintained by The Fragrance Counter and other gray marketers to identify the products would be a fair use of the trademarks under this test, the situation appears to be different regarding the use of the trademarks as keywords that trigger banner ads. This difference will be examined through the following discussion of the two cases that are particularly helpful in attempting to determine what the potential outcome of the Estee Lauder case may have been.

V. THE *NETSCAPE* AND *BROOKFIELD COMMUNICATIONS* DECISIONS

These two cases, each in their own way, serve as an indicator of how Estee Lauder's case may, and perhaps should, have been resolved. By

76. *Playboy Enters. v. Netscape Communications Corp.*, 55 F. Supp. 2d 1070, 52 U.S.P.Q.2d (BNA) 1162 (C.D. Cal. 1999).

77. *Id.* at 1086-87, 52 U.S.P.Q.2d (BNA) at 1174-75.

78. *Id.* Further, in *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 801, 61 U.S.P.Q.2d (BNA) 1508, 1510 (9th Cir. 2002), the Ninth Circuit adopted this as the "test for nominative use" that should be applied in "cases in which the defendant raises a nominative use defense. . . instead of the test for likelihood of confusion set forth in *Sleekcraft*." *Id.* The court stated:

[t]he three-factor test better evaluates the likelihood of confusion in nominative use cases. When a defendant uses a trademark nominally, the trademark will be identical to the plaintiff's mark, at least in terms of the words in question. Thus, application of the *Sleekcraft* test, which focuses on the similarity of the mark used by the plaintiff and the defendant, would lead to the incorrect conclusion that virtually all nominative uses are confusing. The three-factor test. . . better addresses concerns regarding the likelihood of confusion in nominative use cases.

Id.

79. *See Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074, 34 U.S.P.Q.2d (BNA) 1720, 1721 (9th Cir. 1995). This was a case in which genuine products were being sold, and thus the trademark was already affixed.

80. However, this would seem to be a relatively limited use, that is, to describe the products that are for sale, but without suggesting an affiliation with the trademark owner. *See MCCARTHY, supra* note 9, § 25:41.

analyzing each case separately and then comparing them in light of the facts of the Estee Lauder suit, the importance of both the differences and similarities of the three cases becomes apparent.

The suit brought by Estee Lauder essentially concerned the use and sale of trademark terms as keywords that trigger banner ads, and also the allegedly prominent display of Estee Lauder trademarks on those banner ads.⁸¹ As discussed below, while *Netscape* likewise concerned the use and sale of keywords that trigger banner ads,⁸² the analysis used by the court in reaching its decision could arguably result in a different conclusion for Estee Lauder. *Brookfield Communications*, on the other hand, concerned the use of trademarks in the website's domain name and metatags.⁸³ While the *Brookfield* case did not specifically address the use and sale of keywords that trigger banner ads, the court's analysis regarding the use of trademarks as metatags is useful. Furthermore, *Netscape* addresses issues raised and the analogy used by the *Brookfield Communications* court to differentiate the two cases.⁸⁴ As the issues in *Netscape*, specifically the use and sale of keywords that trigger banner ads, are a bit more similar to the issues raised in the Estee Lauder suit than to those raised in *Brookfield Communications*, the discussion will start with *Netscape* and then proceed to *Brookfield Communications* and its applicable analysis of metatags.

A. The Netscape Decision

Around the same time that Estee Lauder filed its suit against The Fragrance Counter and Excite, Playboy Enterprises, Inc. (PEI) filed suit against Netscape Communications Corp. (Netscape) and Excite, Inc.⁸⁵ PEI filed a motion for a preliminary injunction against Netscape and Excite claiming that the defendants were diluting⁸⁶ and infringing⁸⁷ its trademarks.⁸⁸ The court summarized the activities of the defendants upon which PEI based its claims as follows:

In May 1998, Excite and Netscape began selling advertising inventory for banner advertisements to be displayed in response

81. Feingold, *supra* note 28, at 256-57.

82. *Netscape*, 55 F. Supp. 2d at 1072, 52 U.S.P.Q.2d (BNA) at 1163-64.

83. See generally *Brookfield Communications, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1041, 50 U.S.P.Q.2d (BNA) 1545, 1546-48 (9th Cir. 1999).

84. See *Netscape*, 55 F. Supp. 2d at 1074, 52 U.S.P.Q.2d (BNA) at 1163.

85. *Id.* at 1072, 52 U.S.P.Q.2d (BNA) at 1163.

86. 15 U.S.C. § 1125(c) (2000).

87. 15 U.S.C. § 1114 (2000).

88. *Netscape*, 55 F. Supp. 2d at 1072, 52 U.S.P.Q.2d (BNA) at 1163.

to a pre-selected package of search queries to advertisers that operate adult entertainment Web sites. The words "playboy" and "playmate" are two of the words in this package of over 450 words. If an Excite or Netscape user enters one of the . . . words in this package, then the search results page will display a banner advertisement from one of these advertisers. Because there are several advertisers which purchased banner advertisements triggered by the search queries in this package, the banner advertisements from the various advertisers are displayed on a rotating basis.⁸⁹

PEI claimed that its trademarks were being infringed when the group of words was sold to advertisers, the banner ads were run in connection with the use of the words as search terms, and the banner ads were displayed as a result of the search.⁹⁰ Defendants Netscape and Excite contended, however, that they "do not actually 'use' the trademarks qua trademarks."⁹¹ They also argued that PEI's trademark rights do not preclude all uses of the terms "playboy" and "playmate" and that, specifically, PEI's use is not precluded.⁹²

The threshold issue in this case, according to the court, was whether there was "a showing that defendants use[d] plaintiff's trademarks in commerce,"⁹³ which needed to be shown for either the infringement or the dilution claim.⁹⁴ The court concluded that PEI did not show that Netscape and Excite used its marks in commerce because the defendants do not use the terms "playboy" and "playmate" in the form of trademarks.⁹⁵ The court explained that one cannot plug "Playboy®" into a search engine, and therefore when conducting a search, one only uses the "generic" form of the word "playboy."⁹⁶ The court went on further to state that "the words 'playboy' and 'playmate' are English words in their own right, and that there exist other trademarks on the words wholly unrelated to PEI."⁹⁷ Apparently, since the words "playboy" and "playmate" are words that can be used in ordinary English without necessarily referring to Playboy® as such, that ordinary use can be considered wholly separate and apart from the statutorily

89. *Id.* at 1078, 52 U.S.P.Q.2d (BNA) at 1168.

90. *Id.* at 1072, 52 U.S.P.Q.2d (BNA) at 1163.

91. *Id.* at 1073, 52 U.S.P.Q.2d (BNA) at 1163-64.

92. *Id.*

93. *Netscape*, 55 F. Supp. 2d at 1073, 52 U.S.P.Q.2d (BNA) at 1164.

94. *Id.*; see 15 U.S.C. §§ 1114 & 1125(c) (2000).

95. *Netscape*, 55 F. Supp. 2d at 1073, 52 U.S.P.Q.2d (BNA) at 1164.

96. *Id.*

97. *Id.*

required use of the trademarks.⁹⁸ This distinction allowed the court to conclude that the defendants were not “using” the trademarks of PEI, and therefore could not be infringing or diluting those marks.⁹⁹

The court did not stop there, however. It went on to say that even if the defendants’ actions were to be considered “use” of the trademark, that use would still not warrant a meritorious claim of either infringement or dilution.¹⁰⁰ In terms of infringement, the court reiterated that the “likelihood of confusion” is the essential element for a successful infringement claim.¹⁰¹ Thus, even if these actions were to be considered trademark use, the plaintiffs must establish a likelihood that confusion will occur.¹⁰² In this regard, PEI relied upon *Brookfield Communications*, a case in which the court found a likelihood of confusion,¹⁰³ in making a similar argument for initial interest confusion.¹⁰⁴ However, the *Netscape* court subsequently addressed and dismissed this contention.¹⁰⁵ Although the court stated that “[i]nitial interest confusion . . . is a brand of confusion particularly applicable to the Internet[,]”¹⁰⁶ it did not find this confusion to be present in this case. The court described initial interest confusion by stating,

initial interest confusion may result when a user conducts a search using a trademark term and the results of the search include web sites not sponsored by the holder of the trademark search term, but rather of competitors [T]he user may be diverted to an un-sponsored site, and only realize that she has been diverted upon arriving at the competitor’s site In that way, the competitor has captured the trademark holder’s potential visitors or customers.¹⁰⁷

In differentiating this case from *Brookfield Communications*, the court noted two things. First, unlike “playboy” and “playmate,” the

98. See *id.*; 15 U.S.C. §§ 1114 & 1125(c).

99. *Netscape*, 55 F. Supp. 2d at 1073-74, 52 U.S.P.Q.2d (BNA) at 1164.

100. *Id.* at 1074-76, 52 U.S.P.Q.2d (BNA) at 1164-67.

101. *Id.* at 1074, 52 U.S.P.Q.2d (BNA) at 1164-65.

102. *Id.*

103. *Brookfield Communications, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 50 U.S.P.Q.2d (BNA) 1545 (9th Cir. 1999).

104. For a discussion of initial interest confusion, see MCCARTHY, *supra* note 9, § 23:6 (noting that “[i]nfringement can be based upon confusion that creates initial interest, even though no actual sale is finally completed as a result of the confusion. Most courts now recognize the initial interest confusion theory as a form of likelihood of confusion which can trigger a finding of infringement.”)

105. *Netscape*, 55 F. Supp. 2d at 1074-76, 52 U.S.P.Q.2d (BNA) at 1164-65.

106. *Id.* at 1074, 52 U.S.P.Q.2d (BNA) at 1165.

107. *Id.* (citations omitted).

trademark word at issue in *Brookfield Communications* was “not an English word in its own right.”¹⁰⁸ As stated before, the court concluded that the use of “playboy” and “playmate” did not constitute use of the trademarks, but rather use of the words in their ordinary English meaning as search terms.¹⁰⁹ Thus, since the use was not in the trademark form, the words could not be “said to suggest sponsorship or endorsement of either the web sites that appear as search results (as in *Brookfield*) or the banner ads that adorn the search results page.”¹¹⁰ The second reason the court gave for the distinction between the two cases was that in *Brookfield Communications*, the two parties were direct competitors in the same market, which was not the situation in *Netscape*.¹¹¹ However, to better understand these distinctions made by the court concerning *Brookfield Communications*, it is necessary to explore the case itself in more depth.

B. The Brookfield Communications Decision

In *Brookfield Communications*, the court had to determine whether the use of Brookfield Communication’s trademark, “MovieBuff,” by West Coast Entertainment, Inc. in its website domain name and in the website’s metatags constituted trademark infringement.¹¹² The second concern is particularly useful for the analysis of the issue at hand. Brookfield Communications, Inc. (Brookfield Communications) is an “entertainment-industry information provider[]”¹¹³ that, among other things, operates an Internet database under the “MovieBuff” name.¹¹⁴ West Coast Entertainment, Inc. (West Coast) is a video rental chain that had plans to maintain an Internet entertainment database at “moviebuff.com.”¹¹⁵ Brookfield Communications thus commenced this action after learning of West Coast’s intention and having its cease and desist letter ignored by West Coast.¹¹⁶ After determining, as a preliminary matter, that Brookfield Communications had a valid

108. *Id.*

109. *Id.* at 1073-74, 52 U.S.P.Q.2d (BNA) at 1165.

110. *Netscape*, 55 F. Supp. 2d at 1074, 52 U.S.P.Q.2d (BNA) at 1165.

111. *Id.* at 1074-75, 52 U.S.P.Q.2d (BNA) at 1165.

112. *Brookfield Communications, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1041, 50 U.S.P.Q.2d (BNA) 1545, 1547 (9th Cir. 1999).

113. *Id.*

114. *Id.*

115. *Id.* at 1042, 50 U.S.P.Q.2d (BNA) at 1547.

116. *Id.* at 1042-43, 50 U.S.P.Q.2d (BNA) at 1548.

trademark in "MovieBuff,"¹¹⁷ the court next turned to the issue of whether West Coast's use of the "MovieBuff" trademark in the website's metatags constituted trademark infringement.¹¹⁸

Although the court initially stated that confusion resulting from the use of the trademark in a website, "westcoastvideo.com" for example, would be less than if used in the infringing "moviebuff.com" site because the Internet user would clearly be able to see the name of the website ("westcoastvideo.com") when the search results appeared, the court nonetheless held that initial interest confusion would still result.¹¹⁹ The court reasoned that "[w]eb surfers looking for Brookfield's 'MovieBuff' products who are taken by a search engine to 'westcoastvideo.com' will find a database similar enough to 'MovieBuff' such that a sizeable number of consumers who were originally looking for Brookfield's product will simply decide to utilize West Coast's offerings instead."¹²⁰ The court further stated that in so doing, "West Coast improperly benefits from the goodwill that Brookfield developed in its mark."¹²¹ Initial interest confusion supported a finding of infringement under the Lanham Act.¹²²

117. *Brookfield Communications*, 174 F.3d at 1053, 1061, 50 U.S.P.Q.2d (BNA) at 1556, 1563.

118. *Id.* at 1061-67, 50 U.S.P.Q.2d (BNA) at 1563-67. Before assessing whether the use of the trademark in the website's metatags constituted trademark infringement, the court analyzed the use of the trademark in the website domain name in terms of the *Sleekcraft* factors, and stated in a footnote,

[a]lthough the Ninth Circuit has yet to apply the likelihood of confusion analysis in the Internet context, a district court applying Ninth Circuit law based its finding of likelihood of confusion on (1) the virtual identity of marks, (2) the relatedness of plaintiff's and defendant's goods, and (3) the simultaneous use of the Web as a marketing channel. Consistently with *Comp Examiner*, we conclude that these three *Sleekcraft* factors are the most important in this case and accordingly commence our analysis by examining these factors first.

Id. at 1054 n.16, 50 U.S.P.Q.2d (BNA) at 1557 n.16 (citing *Comp Examiner Agency, Inc. v. Juris, Inc.*, No. 96-0213, 1996 U.S. Dist. LEXIS 20259, at *1 (C.D. Cal. Apr. 26, 1996)). The court then found that there was indeed a likelihood of confusion. *Id.* at 1055-62, 50 U.S.P.Q.2d (BNA) at 1558-64.

119. *Id.* at 1062, 50 U.S.P.Q.2d (BNA) at 1564. The court noted that the analysis of the factors regarding the use of the trademarks as metatags would be much the same as the analysis regarding the use in the domain name, but also evaluated the use as metatags in light of the domain name "westcoastvideo.com" before coming to the conclusion that there was a likelihood of confusion, in this case, initial interest confusion. *See id.*

120. *Id.*

121. *Brookfield Communications*, 174 F.3d at 1062, 50 U.S.P.Q.2d (BNA) at 1564.

122. *Id.* (citing *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1405 (9th Cir. 1997) (citing *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 257-58, 260 (2d Cir. 1987))). *See also* MCCARTHY, *supra* note 9, § 23:6.

In terms of initial interest confusion, the court created an analogy by illustrating a scenario involving highway billboards.¹²³ The court asserted that the use of another's trademark in metatags "is much like posting a sign with another's trademark in front of one's store."¹²⁴ The hypothetical analogy used to demonstrate this type of initial interest confusion asks the reader to suppose that Blockbuster, a competitor of West Coast, erected a billboard that indicated that a West Coast video store was located off of Exit 7, and that the West Coast video store was actually located at the next exit, Exit 8.¹²⁵ The reader is to further suppose that the Blockbuster video store was located off of Exit 7, and that the motorists that exit at Exit 7, looking for the West Coast video store, might very well end up renting videos from Blockbuster after being unable to find the West Coast video store off of Exit 7.¹²⁶ In concluding that this would constitute actionable initial interest confusion, the court stated:

Customers are not confused in the narrow sense: they are fully aware that they are purchasing from Blockbuster and they have no reason to believe that Blockbuster is related to, or in any way sponsored by, West Coast. Nevertheless, the fact that there is only initial interest confusion does not alter the fact that Blockbuster would be misappropriating West Coast's acquired goodwill.¹²⁷

It is in this sense that the court determined that West Coast's use of Brookfield Communication's trademark as a metatag in its website constituted actionable trademark infringement.¹²⁸

In response to the allegations of infringement, West Coast additionally raised the issue of fair use, a concept also assessed by the court in *Netscape*.¹²⁹ The *Brookfield Communications* court noted that while the use of a trademark by someone other than the trademark owner is not prohibited by the Lanham Act if that person is using the mark to describe the trademark owner's goods or in comparative

123. *Brookfield Communications*, 174 F.3d at 1064, 50 U.S.P.Q.2d (BNA) at 1565.

124. *Id.*

125. *Id.*

126. *Id.*

127. *Id.* (citing *Blockbuster Entm't Group v. Laylco, Inc.*, 869 F. Supp. 505, 513 (E.D. Mich. 1994)).

128. *Brookfield Communications*, 174 F.3d at 1065-66, 50 U.S.P.Q.2d (BNA) at 1566.

129. *Id.* at 1065, 50 U.S.P.Q.2d (BNA) at 1566; *Playboy Enters., Inc. v. Netscape Communications Corp.*, 55 F. Supp. 2d 1070, 1086-87, 52 U.S.P.Q.2d (BNA) 1162, 1174-75 (C.D. Cal. 1999).

advertising,¹³⁰ and that while West Coast was entitled to use “an appropriate descriptive term in its metatags,”¹³¹ Brookfield Communication’s trademark, “MovieBuff,” is not one of those appropriate descriptive terms.¹³² The court reasoned that although “Movie Buff” is a descriptive word used to describe a movie enthusiast, “MovieBuff” is not an ordinary English word.¹³³ When used, it always functions in the trademark sense.¹³⁴ Therefore, the court’s prohibition of West Coast’s use of “MovieBuff” as a metatag in its web site did not consequently violate West Coast’s right to the fair use of the trademark term.¹³⁵

There are several important issues that become apparent in the analysis of the two cases. The first concerns the nature of the trademark, that is, whether the trademark terms consist of ordinary English words. The second concerns the nature of the use of the trademarks, whether as keywords, metatags, or perhaps in the actual banner advertisements themselves. The third concerns an application and examination of the fair use doctrine. These are all issues that are relevant and essential to the analysis of the suit filed by Estee Lauder.

VI. THE ESTEE LAUDER COMPARISON AND ANALYSIS

Netscape and *Brookfield Communications* addressed some of the most central issues of Estee Lauder’s case against The Fragrance Counter and Excite. While the Estee Lauder case was not identical to either case, arguably Estee Lauder would have had a good chance of success on the merits. What *Netscape* appears to show is that although one court found no infringement because of a lack of “use” of the terms in their “trademark” sense¹³⁶ and also because the two parties, PEI and Excite, were not direct competitors in the same market (differentiating the case from *Brookfield Communications*),¹³⁷ the absence of these factors, or perhaps the satisfaction of these factors, could result in another court finding initial interest confusion. *Brookfield Communications*, on the other hand, stands for the idea that the use of

130. *Brookfield Communications*, 174 F.3d at 1065, 50 U.S.P.Q.2d (BNA) at 1566.

131. *Id.* at 1066, 50 U.S.P.Q.2d (BNA) at 1567.

132. *Id.*

133. *Id.*

134. *Id.*

135. *See Brookfield Communications*, 174 F.3d at 1066, 50 U.S.P.Q.2d (BNA) at 1567.

136. *Playboy Enters. v. Netscape Communications Corp.*, 55 F. Supp. 2d 1070, 1073-74, 52 U.S.P.Q.2d (BNA) 1162, 1164-65.

137. *Id.* at 1074-75, 52 U.S.P.Q.2d (BNA) at 1164-65.

trademark terms as keywords and metatags by an entity other than the trademark owner may constitute at least initial interest confusion, especially when the two parties are competitors in the same market and the trademark term in issue is not an ordinary English word (as opposed to “playboy” and “playmate” in *Netscape*).¹³⁸ As will be discussed below, the similarities and differences between the Estee Lauder case and the two cases discussed above provide a strong basis for the argument that had the Estee Lauder case gone to trial, success on the merits may and perhaps should have been the outcome.

A. Keywords as Triggers for Banner Ads

In the Estee Lauder case, The Fragrance Counter and Excite were accused of trademark infringement as a result of their respective use and sale of trademarks owned by Estee Lauder as metatags and keywords that triggered banner ads and search results.¹³⁹ These allegations are similar to both cases in different ways. While *Brookfield Communications* concerned the alleged use of trademark terms as metatags by entities other than the trademark owner, only the *Netscape* decision really addressed the issue of the use and sale of keywords that triggered banner ads. This is an important distinction because the *Netscape* court did not find infringement by the sale and use of the keywords that triggered banner ads.¹⁴⁰ However, the analysis used by the court to deny infringement in *Netscape* may have provided the opposite result for Estee Lauder. The court in *Netscape* first concluded that there was actually no “use in commerce”¹⁴¹ of the trademark, an essential element of trademark infringement, since the words “playboy” and “playmate” were used in their generic and not in their trademark sense, as the symbol, ®, cannot be entered along with the word when implementing a search.¹⁴² The court further concluded that even if it were to be determined that the trademarks were “used,” because the words entered into the search that triggered the banner ads were ordinary English words, the resulting banner ad could not be seen as a potential source of confusion as to sponsorship of or affiliation with the trademark owner.¹⁴³ Additionally, unlike *Brookfield Communications*,

138. See generally *Brookfield Communications*, 174 F.3d 1036, 50 U.S.P.Q.2d (BNA) 1545.

139. See Feingold, *supra* note 28, at 257.

140. See *Netscape*, 55 F. Supp. 2d at 1074, 52 U.S.P.Q.2d (BNA) at 1165.

141. 15 U.S.C. § 1114 (2000).

142. *Netscape*, 55 F. Supp. 2d at 1073, 52 U.S.P.Q.2d (BNA) at 1164.

143. *Id.* at 1074, 52 U.S.P.Q.2d (BNA) at 1164-65.

the two parties were not competitors in the same market and thus the use was less likely to be found to be an infringement.¹⁴⁴

The case, however, was decidedly different for Estee Lauder. There, the words “Estee Lauder” and “Clinique” could not have been used in their generic sense because they do not have a generic sense. “Estee Lauder” and “Clinique” are not like “playboy” and “playmate” in that they are not ordinary English words as well as trademarks.¹⁴⁵ When “Estee Lauder” or “Clinique” is entered into a search engine, the word is used in its trademark form, since it has no ordinary English equivalent.¹⁴⁶ Furthermore, confusion as to Estee Lauder’s sponsorship of, or affiliation with, the banner ads for The Fragrance Counter that are triggered by the use of these trademarks as keywords is likely,¹⁴⁷ since a consumer using the trademark terms in a search may often be looking for an “official” website, which The Fragrance Counter’s website is not.¹⁴⁸ Confusion is especially plausible since The Fragrance Counter allegedly used Estee Lauder’s trademarks prominently in its banner ads used for advertising its online fragrance store.¹⁴⁹

B. The Fair Use Exception

In terms of a *Brookfield Communications* analysis, The Fragrance Counter and Excite, like West Coast, used trademark terms that were not otherwise ordinary English words. The analysis, however, does not end there. Although, apparently, such use of trademarked terms would likely result in a finding of initial interest confusion under the terms set forth by the *Brookfield Communications*¹⁵⁰ and *Netscape*¹⁵¹ courts, evaluation of the use in terms of the fair use exception is necessary. The

144. *Id.* at 1074-75, 52 U.S.P.Q.2d (BNA) at 1165.

145. *Cf. id.* at 1073, 52 U.S.P.Q.2d (BNA) at 1164.

146. *Cf. id.*

147. An analysis of the likelihood of confusion in the use of the trademarks in this case could take a form similar to that of *Brookfield Communications*. See *Brookfield Communications Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1061-67, 50 U.S.P.Q.2d (BNA) 1545 (9th Cir. 1999). Considering that The Fragrance Counter and Excite were using Estee Lauder’s actual trademarks, The Fragrance Counter sells Estee Lauder’s products, thus making the two parties competitors, and both use the Internet as a marketing tool, it seems likely that the analysis of *Brookfield Communications* would be applicable and instructive for this case, and would arguably result in a similar outcome. See *id.*

148. Aside from not maintaining an “official” site, The Fragrance Counter is not even an authorized retailer of Estee Lauder products. See Kerstetter, *supra* note 2.

149. See Feingold, *supra* note 28, at 257.

150. *Brookfield Communications*, 174 F.3d at 1062-64, 50 U.S.P.Q.2d (BNA) at 1564-67.

151. *Netscape*, 55 F. Supp. 2d at 1074-75, 52 U.S.P.Q.2d (BNA) at 1165.

Brookfield court analyzed the fair use doctrine by stating that the Lanham Act does not prohibit the use of trademarks by someone other than the trademark owner if that person is using the mark to describe the trademark owner's goods or in comparative advertising.¹⁵² While West Coast was entitled to use "an appropriate descriptive term in its metatags,"¹⁵³ Brookfield Communication's trademark, "MovieBuff," was not an appropriate descriptive term.¹⁵⁴ The court reasoned that West Coast could use "Movie Buff," but not "MovieBuff."¹⁵⁵ Evidently, West Coast was not attempting, through the use of the "MovieBuff" trademark, to describe any of Brookfield Communication's products or partake in any comparative advertising.¹⁵⁶ In the Estee Lauder case, on the other hand, since The Fragrance Counter was using the trademarks as a way, in some sense, to describe the Estee Lauder products it had for sale on the website, the use was arguably a fair one. However, to determine the merit of that argument, further analysis is necessary, and turning to the fair use elements set forth in the *Netscape* opinion is helpful.

The *Netscape* court set forth the following elements for determining whether a use is fair or infringing: 1) "the product must be one not readily identifiable without the use of the trademark"; 2) "only so much of the mark may be used as is reasonably necessary"; and 3) "the user must do nothing in conjunction with the mark to suggest sponsorship. . . ."¹⁵⁷ As for the first element, the argument that it was necessary for The Fragrance Counter to use the trademarks as metatags and keywords that triggered banner ads to merely "readily identify" the products that it was selling on its website¹⁵⁸ is not convincing. The Fragrance Counter could have used "name brand" or "designer," in conjunction with "perfumes" or "fragrances," for example, to describe the products available on its website and to trigger its banner ads. While it seems that once a patron visits the website The Fragrance Counter could use the trademarks to identify the products being sold, using the

152. *Brookfield Communications*, 174 F.3d at 1065, 50 U.S.P.Q.2d (BNA) at 1566.

153. *Id.* at 1066, 50 U.S.P.Q.2d (BNA) at 1566.

154. *Id.*

155. *See id.*

156. *See id.* at 1066, 50 U.S.P.Q.2d (BNA) at 1566.

157. *Netscape*, 55 F. Supp. 2d at 1086, 52 U.S.P.Q.2d (BNA) at 1174-75.

158. While it is permissible for the Internet retailer to use the "brand name on web site ads selling the branded product without a license from the trademark owner[.]" MCCARTHY, *supra* note 9, § 25:41, it does not seem to follow from this that the retailer should be permitted to purchase the trademark keywords to trigger its own banner ads in order to identify the products it is selling on its website.

trademark terms as keywords that trigger a banner ad for the site does not seem to be fair or reasonably necessary, as the banner is an advertisement for only the website and not the products. Further, the third element of the fair use test stipulates that the non-trademark owner should do nothing in conjunction with the use of the mark to suggest an affiliation with or the sponsorship of the trademark owner.¹⁵⁹ In this case, The Fragrance Counter not only bought the trademarks as keywords, but the banner ads that were triggered allegedly prominently displayed the trademarks of Estee Lauder.¹⁶⁰ This would seem to suggest an affiliation with or sponsorship of the website by Estee Lauder, and is likewise not within the bounds of fair use.

VII. CONCLUSION

While the use of trademarks to describe genuine goods for sale is governed by the fair use elements, those elements should be applied “strictly,” not only to protect trademark owners, but also to protect the consumer from being deceived or misled. The type of use by such entities as The Fragrance Counter, as described above, does not fall within this fair use exception. Entities such as The Fragrance Counter need not purchase and use the trademarks of others as keywords to fairly describe the products that they have for sale on their websites. Such use is an infringement of the trademark owner’s rights, and accordingly, facilitates an activity that appears to only just fit within the bounds of fairness. While the law allows the importation and sale of unauthorized goods that fall within the first sale exception for genuine goods, there is no good reason to facilitate that process by allowing the gray marketers to further take advantage of the reputation and good will of the manufacturers through the liberal use of their trademarks as metatags and keywords that trigger banner ads.

Initial interest confusion provides an even stronger argument for deeming the use of the trademark terms as keywords, by entities other than the trademark owner, an infringement when those entities are involved in the gray market. Through this use of the trademark terms, gray marketers are able to lure and confuse customers searching the Internet. By using the trademark terms as keywords and also by prominently displaying the trademarks on the websites and in the banner ads, the gray marketer will likely, at the very least, cause initial interest confusion to the extent that the consumer may be confused as to

159. *Netscape*, 55 F. Supp. 2d at 1086, 52 U.S.P.Q.2d (BNA) at 1175.

160. Feingold, *supra* note 28, at 257.

the source of the product or affiliation of the gray marketer with the manufacturer. This confusion is especially important considering that some gray market goods, for example, are often not protected by the manufacturers' warranty.¹⁶¹

Limiting the gray marketers' ability to purchase trademarks as keywords would eliminate one avenue used by gray marketers that is likely to cause consumer confusion and through which the gray marketer can capitalize on the goodwill and good name in which the manufacturers have greatly invested. Though the gray marketer may be lawfully selling the products according to the first sale doctrine, the gray marketer's ability to unfairly profit from the often extensive use of the manufacturers' trademarks would be rightfully restricted if this type of use were deemed an infringement. For the reasons stated above, a ruling in favor of Estee Lauder, regarding the purchase and use of its trademarks as keywords and the prominent display of the trademarks in banner ads created and used by The Fragrance Counter, would have served a valuable purpose.

The effect of a ruling in favor of Estee Lauder would be to take away one convenience used by gray marketers to facilitate the unauthorized sale of trademarked goods. The Internet is and has been invaluable for gray marketers. A ruling of this nature would not take the value out of the Internet; it would merely take the unfair and infringing practices away from the gray marketer. Admittedly, a ruling of this type would not stop or substantially limit the unauthorized sale of goods by gray marketers over the Internet. It would, however, establish that this use of trademarks is an infringement, and should be eliminated. It would force gray marketers to find other noninfringing ways to sell the unauthorized products, and it would help reduce consumer confusion as to the source of the products and the affiliation of the sites with the manufacturers. Infringing uses of trademarks should not be allowed, and especially not to facilitate the unauthorized sale of gray market goods.

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161. See Galstian, *supra* note 5, at 510-12.